

**FCC Form 481 - Carrier Annual Reporting**  
**Data Collection Form**

 FCC Form 481  
 OMB Control No. 3060-0986/OMB Control No. 3060-0819  
 July 2013

<010>	Study Area Code	290576
<015>	Study Area Name	PEOPLES TEL CO
<020>	Program Year	2016
<030>	Contact Name: Person USAC should contact with questions about this data	Veronica Martin
<035>	Contact Telephone Number: Number of the person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	FilingsRAD@tec.com

**ANNUAL REPORTING FOR ALL CARRIERS**

<b>54.313</b> Completion Required	<b>54.422</b> Completion Required
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(check box when complete)

<100>	Service Quality Improvement Reporting	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<200>	Outage Reporting (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<210>	<input checked="" type="checkbox"/> <-- check box if no outages to report		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<300>	Unfulfilled Service Requests (voice)	0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<310>	Detail on Attempts (voice)	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<320>	Unfulfilled Service Requests (broadband)	0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<330>	Detail on Attempts (broadband)	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<400>	Number of Complaints per 1,000 customers (voice)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<410>	Fixed	0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<420>	Mobile	0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<430>	Number of Complaints per 1,000 customers (broadband)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<440>	Fixed	0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<450>	Mobile	0.0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<500>	Service Quality Standards & Consumer Protection Rules Compliance	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<510>	290576-TN-510.pdf	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<600>	Functionality in Emergency Situations	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<610>	290576-TN-610.pdf	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<700>	Company Price Offerings (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<710>	Company Price Offerings (broadband)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<800>	Operating Companies and Affiliates	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<900>	Tribal Land Offerings (Y/N)?	(if yes, complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1000>	Voice Services Rate Comparability Certification	Yes	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1010>	290576-TN-1010.pdf	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1100>	Certify whether terrestrial backhaul options exist (Yes or No)	(if not, check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1110>		(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1200>	Terms and Condition for Lifeline Customers	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet**

Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

<2000>	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<2005>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet**

<3000>	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<3005>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**(100) Service Quality Improvement Reporting  
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<010>	Study Area Code	290576
<015>	Study Area Name	PEOPLES TEL CO
<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@tcc.com
<110>	Has your company received its ETC certification from the FCC? If your answer to Line <110> is yes, do you have an existing "5 year plan" filed with the FCC?	(yes / no ) <input checked="" type="radio"/> <input type="radio"/> (yes / no ) <input type="radio"/> <input type="radio"/>
<111>		

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a){1}. If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

290576-TN-112.pdf

Name of Attached Document

Please select the appropriate responses below (Yes, No, Not Applicable) to confirm that the attached document(s), on line 112, contains a progress report on its five-year service quality improvement plan pursuant to §54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

- |       |  |     |
|-------|--|-----|
| <113> | Maps detailing progress towards meeting plan targets   | Yes |
| <114> | Report how much universal service (USF) support was received   | Yes |
| <115> | How much (USF) was used to improve service quality and how support was used to improve service quality   | Yes |
| <116> | How much (USF) was used to improve service coverage and how support was used to improve service coverage | Yes |
| <117> | How much (USF) was used to improve service capacity and how support was used to improve service capacity | Yes |
| <118> | Provide an explanation of network improvement targets not met in the prior calendar year.                | Yes |

(200) Service Outage Reporting (Voice)  
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<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	Fl1ngsrad@tec.com

[illegible]

<010>	Study Area Code	290576
<015>	Study Area Name	PEOPLES TEL CO
<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@ec.com

5/1/2015	
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	Residential Local Service Charge Effective Date	Single State-wide Residential Local Service Charge
<701>		
<702>		

[illegible]



(710) Broadband Price Offerings Data Collection Form		FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013	
<010>	Study Area Code	290576	
<015>	Study Area Name	PEOPLES TEL CO	
<020>	Program Year	2016	
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin	
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.	
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@ec.com	

[illegible]

(800) Operating Companies  
Data Collection Form

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[illegible]

<010>	Study Area Code	290576
<015>	Study Area Name	PEOPLES TEL CO
<020>	Program Year	2016
<030>	Contact Name - Person	USAC should contact regarding this data
<035>	Contact Telephone Number - Number of person identified in data line	<030> Veronica Martin 6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line	<030> FilingsRAD@ec.com

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each of these boxes to confirm the status described on the attached document(s) on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

	Select Yes or No or Not Applicable
§ 54.313(a)(9) includes:	
<921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.	
<922> Feasibility and sustainability planning;	
<923> Marketing services in a culturally sensitive manner;	
<924> Compliance with Rights of way processes	
<925> Compliance with Land Use permitting requirements	
<926> Compliance with Facilities Siting rules	
<927> Compliance with Environmental Review processes	
<928> Compliance with Cultural Preservation review processes	
<929> Compliance with Tribal Business and Licensing requirements.	

**(1100) No Terrestrial Backhaul Reporting  
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<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@tcc.com

<1120> Please confirm whether terrestrial backhaul options exist within the supported area pursuant to § 54.313(g) (Yes, No).

<1130> Please select the appropriate response (Yes, No, Not Applicable) to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(g).

**(1200) Terms and Condition for Lifeline Customers****Lifeline****Data Collection Form**

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<010>	Study Area Code	290576
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<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	603549970 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@tel.com

**<1210> Terms & Conditions of Voice Telephony Lifeline Plans**

Name of Attached Document

**<1220> Link to Public Website**HTTP <http://www.tel.com/terms>

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

<1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, ☒

<1222> Details on the number of minutes provided as part of the plan, ☒

<1223> Additional charges for toll calls, and rates for each such plan. ☒



(2000) Price Cap Carrier Additional Documentation  
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Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

<010>	Study Area Code	290576
<015>	Study Area Name	PEOPLES TEL CO
<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	VERONICA MARTIN
<035>	Contact Telephone Number - Number of person identified in data line <030>	8015549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FMILLING@AUSGEC.COM

Select the appropriate responses below (Yes, No, Not Applicable) to note compliance as a recipient of incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e). The information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

- <2010> 2nd Year Certification {47 CFR § 54.313(b)(1)}  
 <2011a> 3rd Year Certification {47 CFR § 54.313(b)(1)(i)}  
 <2011b> Attachment {47 CFR § 54.313(b)(1)(ii)}

Price Cap Carrier Receiving Frozen Support Certification {47 CFR § 54.312(a)}

- <2012> 2013 Frozen Support Calculation {47 CFR § 54.313(c)(1)}  
 <2013> 2014 Frozen Support Calculation {47 CFR § 54.313(c)(2)}  
 <2014> 2015 Frozen Support Calculation {47 CFR § 54.313(c)(3)}  
 <2015> 2016 and future Frozen Support Calculation {47 CFR § 54.313(c)(4)}

Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}

Certification Support Used to Build Broadband

Connect America Phase II Reporting {47 CFR § 54.313(e)}

- <2017> 3rd year Broadband Service Certification  
 <2018> 5th year Broadband Service Certification  
 <2019> Interim Progress Certification

<2020> Please check the box to confirm that the attached document(s), on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

- <2021> Interim Progress Community Anchor Institutions

Name of Attached Document(s) Listing Required Information

Name of Attached Document(s) Listing Required Information



## (3000) Rate Of Return Carrier Additional Documentation

## Data Collection Form

FCC Form 481

OMB Control No. 3060-0086/OMB Control No. 3060-0819

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<010> Study Area Code	290576
<015> Study Area Name	PEOPLES TEL CO
<020> Program Year	2016
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<030> Contact Telephone Number - Number of person identified in data line <030>	6033549070 ext.
<035> Contact Email Address - Email Address of person identified in data line <030>	F11ngsRd@telco.com

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3010) Progress Report on 5 Year Plan Milestones Certification (47 CFR § 54.313(f)(1)(i))	<div style="border: 1px solid black; padding: 5px;">290576-TN-3010.pdf</div>	Name of Attached Document Listing Required Information	<input checked="" type="checkbox"/>
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(3011) Please check this box to confirm that the attached document(s), on line 3012 contains the required information pursuant to § 54.313(f)(1)(ii), the carrier shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

(3012) Community Anchor Institutions (47 CFR § 54.313(f)(1)(ii))	<div style="border: 1px solid black; padding: 5px;">290576-TN-3012.pdf</div>	Name of Attached Document Listing Required Information	<input checked="" type="checkbox"/>
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(3013) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2))

(3014) If yes, does your company file the RUS annual report

Please check these boxes to confirm that the attached document(s), on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:

(3015) Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)

(3016) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3017) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation	<div style="border: 1px solid black; padding: 5px;"></div>	Name of Attached Document Listing Required Information	<input checked="" type="checkbox"/>
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(3018) If the response is no on line 3014, Is your company audited?

If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains

(3019) Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications

(3020) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3021) Management letter and audit opinion issued by the independent certified public accountant that performed the company's financial audit

If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:

(3022) Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers,

(3023) Underlying information subjected to a review by an independent certified public accountant

(3024) Underlying information subjected to an officer certification.

(3025) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3026) Attach the worksheet listing required information	<div style="border: 1px solid black; padding: 5px;">290576-TN-3026.pdf</div>	Name of Attached Document Listing Required Information	<input checked="" type="checkbox"/>
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(3000) Rate Of Return Carrier Additional Documentation (Continued)

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<010>	Study Area Code	290576
<015>	Study Area Name	PEOPLES TEL CO
<020>	Program Year	2016
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	5013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@tcc.com

- Financial Data Summary
- (3027) Revenue

(3028) Operating Expenses

(3029) Net Income

(3030) Telephone Plant In Service(TPIS)

(3031) Total Assets

(3032) Total Debt

(3033) Total Equity

(3034) Dividends



Certification - Reporting Carrier Data Collection Form	FCC Form 483 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010> Study Area Code	290576
<015> Study Area Name	PEOPLES TEL CO
<020> Program Year	2016
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	FilingRAD@telco.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	PEOPLES TEL CO
Signature of Authorized Officer:	<i>James W. Garner</i> Date 6-30-15
Printed name of Authorized Officer:	James W. Garner
Title or position of Authorized Officer:	Vice President of Operations
Telephone number of Authorized Officer:	601-354-9070
Study Area Code of Reporting Carrier:	290576 Filing Due Date for this form: 07/01/2015
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Certification - Agent / Carrier Data Collection Form		FCC Form 481 OMB Control No. 3060-0986/CMB Control No. 3060-0819 July 2013
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<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin	
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.	
<039> Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@tec.com	

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent: _____	
Name of Reporting Carrier: _____	
Signature of Authorized Officer: _____	Date: _____
Printed name of Authorized Officer: _____	
Title or position of Authorized Officer: _____	
Telephone number of Authorized Officer: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier: _____	
Name of Authorized Agent or Employee of Agent: _____	
Signature of Authorized Agent or Employee of Agent: _____	Date: _____
Printed name of Authorized Agent or Employee of Agent: _____	
Title or position of Authorized Agent or Employee of Agent: _____	
Telephone number of Authorized Agent or Employee of Agent: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

## Attachments

FCC Form 481  
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July 2013

1/1/2015	
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<703>

[illegible]



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<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	F111ngersRADstee.com

[illegible]

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July 2013

[illegible]

**CONFIDENTIAL**  
**NOT FOR PUBLIC INSPECTION**

**Five-Year Network Improvement Plan and Progress Report**  
**For Peoples Telephone Company**

In its *USF/ICC Transformation Order* and subsequent Orders, the Federal Communications Commission (“FCC” or “Commission”) required Eligible Telecommunications Carriers (“ETCs”) to submit a five-year build-out plan in a manner consistent with Section 54.202(a)(1)(ii) of the Commission’s Rules by July 1, 2014 and to submit annual progress reports thereafter.<sup>1</sup> In its *March 5, 2013 Order*, the FCC specified that for rate-of-return carriers, the five-year plans “should describe the carrier’s network improvement plan, which should provide greater visibility into current plans to extend broadband service to unserved locations in rate-of-return service territories.”<sup>2</sup> Peoples Telephone Company (“Peoples” or the “Company”) is a rate-of-return carrier ETC and hereby submits its five-year network improvement plan as well as a progress report covering any progress made on the initial five-year network improvement plan submitted in 2014. Because the 2015 calendar year is still in progress, 2015 is included in its five-year plan, but extends the plan for an additional year, through 2020. Therefore, while Peoples’ plan actually covers six calendar years, the five-year plan maintains a full five calendar years of forward-looking network improvement projects.

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<sup>1</sup> See *Connect America Fund; A National Broadband Plan for Our Future; Establishing Just and Reasonable Rates for Local Exchange Carriers; High-Cost Universal Service Support; Developing a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-61 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order*) at Para. 587; *pets. for review denied, Direct Comm. Cedar Valley, et al v. FCC 11-161*, No. 11-9900 [www.ca10.uscourts.gov/opinions/11/11-9900.pdf](http://www.ca10.uscourts.gov/opinions/11/11-9900.pdf) (10th Cir. filed May 23, 2014); see also *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Order, DA 12-147 (rel. Feb. 12, 2012) at Para. 5 (amending Section 54.313(a)(1) to clarify this requirement); *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Third Order on Reconsideration, FCC 12-52 (rel. May 14, 2012) at Para. 10 (changing the filing deadline for the annual reports from April 1 to July 1); *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Order, DA 13-332 (rel. Mar. 5, 2013) (“*March 5, 2013 Order*”) at Para’s. 4, 6-9. Delaying Five-year Plan until July 1, 2014 see WC Docket No. 10-90, Order, DA 13-1115, Para. 8 (released May 16, 2013).

<sup>2</sup> *March 5, 2013 Order* at Para. 9 citing Section 54.202(a)(1)(ii).

**I. The Company's Five-Year Network Improvement Plan**

When the Commission adopted its five-year plan requirements for FCC-designated ETCs in its *2005 ETC Order*, it set forth the following criteria as to how the ETC is to describe with “specificity” the proposed improvements or upgrades to the ETC’s network throughout its service area:

(1) how signal quality, coverage, or capacity will improve due to the receipt of high-cost support throughout the area for which the ETC seeks designation; (2) the projected start date and completion date for each improvement and the estimated amount of investment for each project that is funded by high-cost support; (3) the specific geographic areas where the improvements will be made; and (4) the estimated population that will be served as a result of the improvements.<sup>3</sup>

In that order, the FCC clarified that service quality improvements in the five-year plan “do not necessarily require additional construction of network facilities.”<sup>4</sup> Accordingly, the improvements listed in the plan may be projects related to the expansion of the network (one or multiple services), projects related to updating technology to accommodate new services or higher bandwidth or maintenance projects, such as to reduce trouble reports or replace outdated equipment. Additionally, in some cases, the projects may be ones that improve or upgrade the entire network rather than discrete areas within a study area or they may be ones that are ongoing projects that have no specific start and completion dates.

The instructions to the Form 481 state “[r]ecipients may describe where improvements are expected to occur by wire center or census block, as appropriate. To the extent no

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<sup>3</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 05-46 (rel. Mar. 17, 2005) (“*2005 ETC Order*”).

<sup>4</sup> *Id.*



improvements are planned in specific areas, the five-year plan should so indicate.”<sup>5</sup> The instructions also require that in subsequent annual progress reports, which must include the total amount of universal support received, this information must be provided “broken out separately by the amount spent on capital expenses and the amount spent on operating expenses.”<sup>6</sup> Accordingly, the Company’s five-year plan separately provides both capital expenditures and operating expenses.

**A. The Company’s Major Network Improvement Projects**

Based upon this framework, Appendix A updates the Company’s five-year plan submitted in 2014 and reflects Peoples Telephone Company’s major network improvement projects for the six calendar years 2015 through 2020<sup>7</sup> along with the start and completion dates, capital costs, areas and population associated with those projects.

**B. How These Projects Will Improve the Network**

Ongoing projects include transport upgrades that will update antiquated technology which will soon be unsupported throughout the network and help reduce trouble tickets. Other priority projects include central office power upgrades that will insure network reliability during outages. Various other upgrades during this time include building improvements, new computers, new vehicles, and other work equipment; these will be used to replace outdated equipment and address maintenance issues. Peoples requires all batteries be tested regularly to insure reliability of the network under emergency situations, which means regular battery

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<sup>5</sup> Instructions for Completing FCC Form 481, OMB Control No. 3060-0986 (High-Cost), OMB Control No. 3060-0819 (Low-Income), July 2013, Line 112.

<sup>6</sup> Instructions for Completing FCC Form 481, OMB Control No. 3060-0986 (High-Cost), OMB Control No. 3060-0819 (Low-Income), July 2013, Line 112.

<sup>7</sup> Based upon informal discussions with the FCC, the initial five-year network improvement plan covered calendar years 2015 through 2019.

replacement throughout the five years. Routine outside plant upgrade projects will be regarded as the normal course of business for maintaining plant facilities and the network. Finally there will be various broadband upgrades and central office power upgrades. These projects will help to expand the network and update technology to allow higher broadband internet bandwidth speeds. See Appendix A for a full breakdown including costs of the various projects.

**C. Estimated Capital Expenditures and Operating Expenses**

The first table in Appendix B included herein specifies the capital expenditures (projects) in Appendix A, by Part 32 account, along with the respective year in which the expenditures are expected to occur. In the second table of Appendix B, the projected operating expenses are provided, including depreciation expense for both embedded plant investment and for capital expenditures, which begins when the capital expenditures are projected to be placed into service.

**II. The Company's Progress Report on its Five-Year Network Improvement Plan**

Because the calendar year 2015 is still under way, Peoples Telephone Company has no progress to report on the network improvement projects planned for 2015. Comprehensive progress made on network improvements in 2015 will be reported by Peoples Telephone Company in its 2016 ETC Annual Report. Peoples Telephone Company hereby provides the following required elements of its progress report to satisfy Form 481 reporting obligations.



**A. The Amount of Universal Service Support Received by the Company**

For the 2014 calendar year, which was outside of the scope of the Company's initial five-year network improvement plan, Peoples Telephone Company received a total of \$763,542 in high cost universal service support ("USF") through the following mechanisms:

- [REDACTED] for Interstate Common Line Support ("ICLS");
- [REDACTED] for High Cost Loop Support ("HCLS");
- [REDACTED] for ICC CAF Support;

**B. How Peoples Telephone Company Has Used USF to Improve Service Quality, Coverage and Capacity**

Section 254(e) of the Communications Act of 1934, as amended requires ETCs to use Universal Service support ("USF") "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."<sup>8</sup> Pursuant to Section 54.314 of the FCC's rules, in order for state-designated ETCs to receive USF for the coming year, states must annually file certifications by October 1 stating that all federal high-cost support provided to such carriers within the state "was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."<sup>9</sup> ETCs not designated by a state must file similar certifications with the FCC.<sup>10</sup>

In its *USF/ICC Transformation Order*, the FCC clarified that prior to making the Section 254(e) certifications, states should conduct a "rigorous examination of the factual information" contained in the annual Section 54.313 reports, of which the five-year network

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<sup>8</sup> 47 U.S.C. § 254(e).

<sup>9</sup> 47 C.F.R. § 54.314(a).

<sup>10</sup> 47 C.F.R. § 54.314(b).

improvement plan and annual progress reports are a part, in determining whether they can certify that carriers' support has been used and will be used only for the purpose for which the support was intended.<sup>11</sup> The FCC said that it would also use the reports to verify certifications filed by ETCs that are not state-designated.<sup>12</sup> In this context, the Commission stated, "[i]n light of the public interest obligations we adopt in this Order, a key component of this [Section 254(e)] certification will now be that support is being used to maintain and extend modern networks capable of providing voice and broadband service."<sup>13</sup>

Essentially, under the existing rules and processes, the federal USF received by the Company and other incumbent rural telephone companies are, in fact, an integral part of the recovery of expenditures of rural incumbent local exchange carriers incurred in the provision, maintenance and upgrading of their provision of facilities and services for which the USF is intended. Peoples depends upon its receipt and utilization of federal universal service support to provide rural telephone customers with affordable and quality voice and broadband services.

Accordingly, given the critical role the network improvement plan as updated herein and the progress reports will have in the annual Section 254(e) certification process, Peoples' plan and progress reports demonstrate how the Company has used and will use USF not only for improvements and upgrades, but also for the provision and maintenance of the facilities and services to which the support was intended. Even though the FCC did not require the Company to include calendar year 2014 as part of the Company's network improvement plan

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<sup>11</sup> See *USF/ICC Transformation Order* at Para. 612.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* (emphasis supplied).

and thus there is no information to report regarding progress during that year, the Company hereby certifies that during that year it used USF solely for which the support was intended.

**C. Maps Depicting the Company's Network Progress**

Attached to this Five-Year Network Improvement Plan as Appendix C is Peoples' maps depicting the extent of the Company's network within its service area and indicating specific geographic areas associated with certain projects listed above.

**D. Network Improvement Targets Not Met**

Because 2015 is the first year of the Company's network improvement plan, there is no previous year for which to report network improvement targets that have not been fulfilled. The Company will report such information for calendar year 2015 as well as progress towards meeting its targets for that year in its progress report submitted in 2016.

Study Area Code  
 Study Area Name  
 Company Contact Name  
 Contact Telephone Number  
 Contact Email Address

290576  
 Peoples Telephone Company  
 Lisa Wrigington  
 (601) 354-9070  
[FilingsRAD@TEC.com](mailto:FilingsRAD@TEC.com)

APPENDIX A - PROJECT LIST FOR 2015-2019

Project	Start Date	Completion	Areas	Population(1)	Total Dollars	Notes from JSI Separations Contact & Company Discussion	
						Part 32 Account	Voice, Broadband, Both, etc.
ADTRAN TA5K E1/L1 Switch mModules Upgrade	2015	2015	Tennessee Ridge Exchange Long Branch Remote	13,322		2210 Both	
Transport upgrade	2016	2020	All Exchanges	13,322		2210 Both	
Building Improvements	2016	2020	All Exchanges	13,322		2121 Both	
New Computers	2016	2020	All Exchanges	13,322		2124 Both	
New Vehicles	2016	2020	All Exchanges	13,322		2112 Both	
Battery Replacement	2016	2020	All Exchanges	13,322		2232 Both	
Test Equipment Upgrade	2016	2020	All Exchanges	13,322		2114 Both	
Other Work Equipment	2016	2020	All Exchanges	13,322		2114 Both	
Routine Outside Plant Upgrade Project	2016	2020	All Exchanges	13,322		2423 Both	
Broadband Upgrade and Expansions	2016	2020	All Exchanges	13,322		2232 Broadband	
<b>Totals</b>							



Study Area Code	290576
Study Area Name	Peoples Telephone Company
Company Contact Name	Lisa Wigington
Contact Telephone Num	(601) 354-9070
Contact Email Address	FilingsRAD@TEC.com

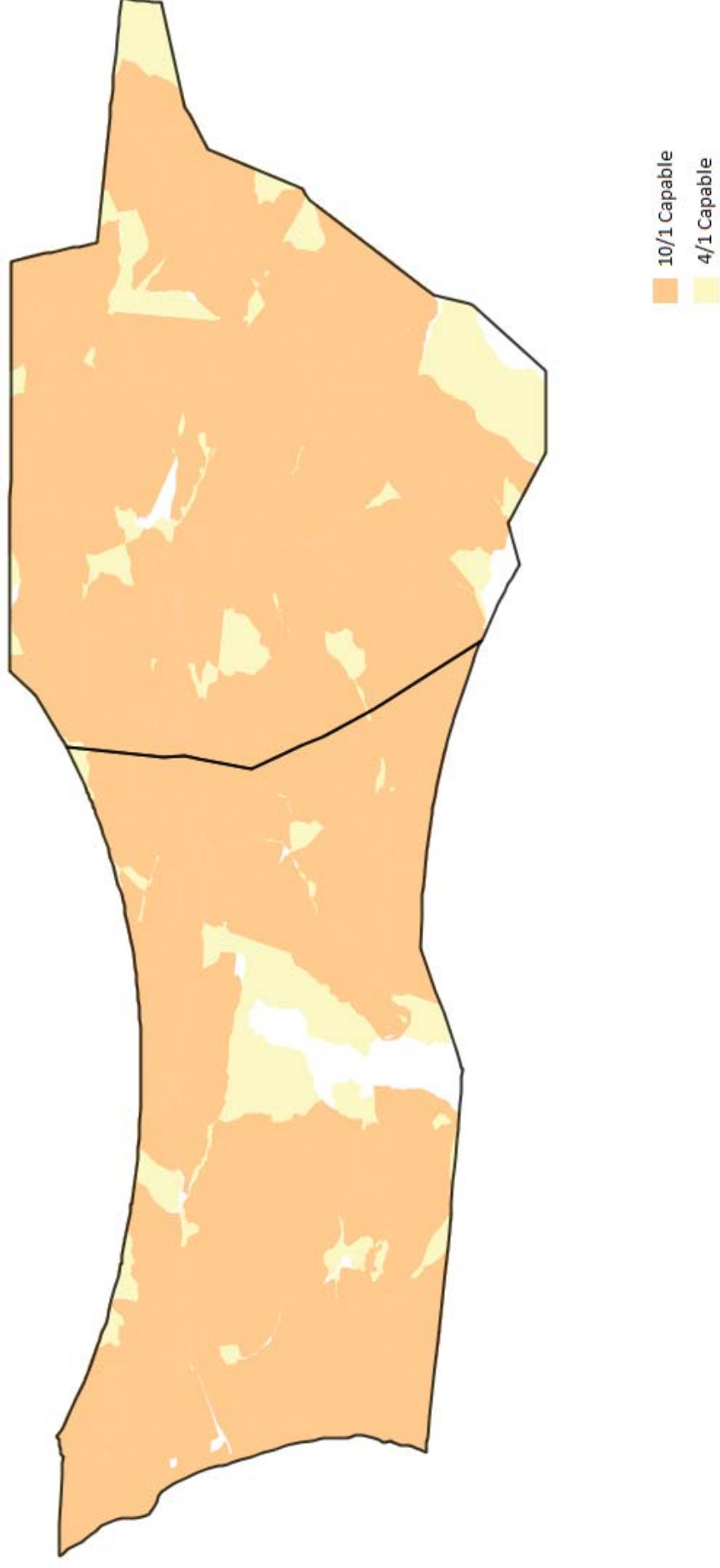
#### APPENDIX B: 5-Year Proposed Capital Expenditures and Operating Expenses

(1) Use the chart below to break out the regulated portion of the cost/expense on a per-year basis  
Please note that the 5-Year Plan should include regulated plant/expenses only.

Regulated Capital Expenditure (CapEx) Projections						
Account	Description	2015	2016	2017	2018	Total Projected CapEx 2016-2020
2111 & 2121	Land & Building					
2112	Vehicles					
2122-2124	Support Assets					
2210	Switching Equipment					
2232	Circuit Equipment					
2410-2440	Cable & Wire Facilities					
1220	Materials & Supplies					
	Total Capital Expenditures					

Regulated Operating Expenditure (OpEx) Projections						
Account	Operating Expenses	2015	2016	2017	2018	Total Operating Expenses 2016-2020
6110-6120	General Support Maintenance					
6210	Switching Maintenance					
6230	COE Transmission Maintenance					
6410	Cable & Wire Facilities					
6530	Non-Specific (Testing, Plant Op., Engineering)					
6561-2110	General Support Depreciation					
6561-2210	Switching Depreciation					
6561-2230	Circuit Equip Depreciation					
6561-2410	Cable & Wire Depreciation					
6610-6620	Customer Operations					
6711-6720	Corporate Operations					
7240	Ad Valorem Expense					
	Total Operating Expenses					

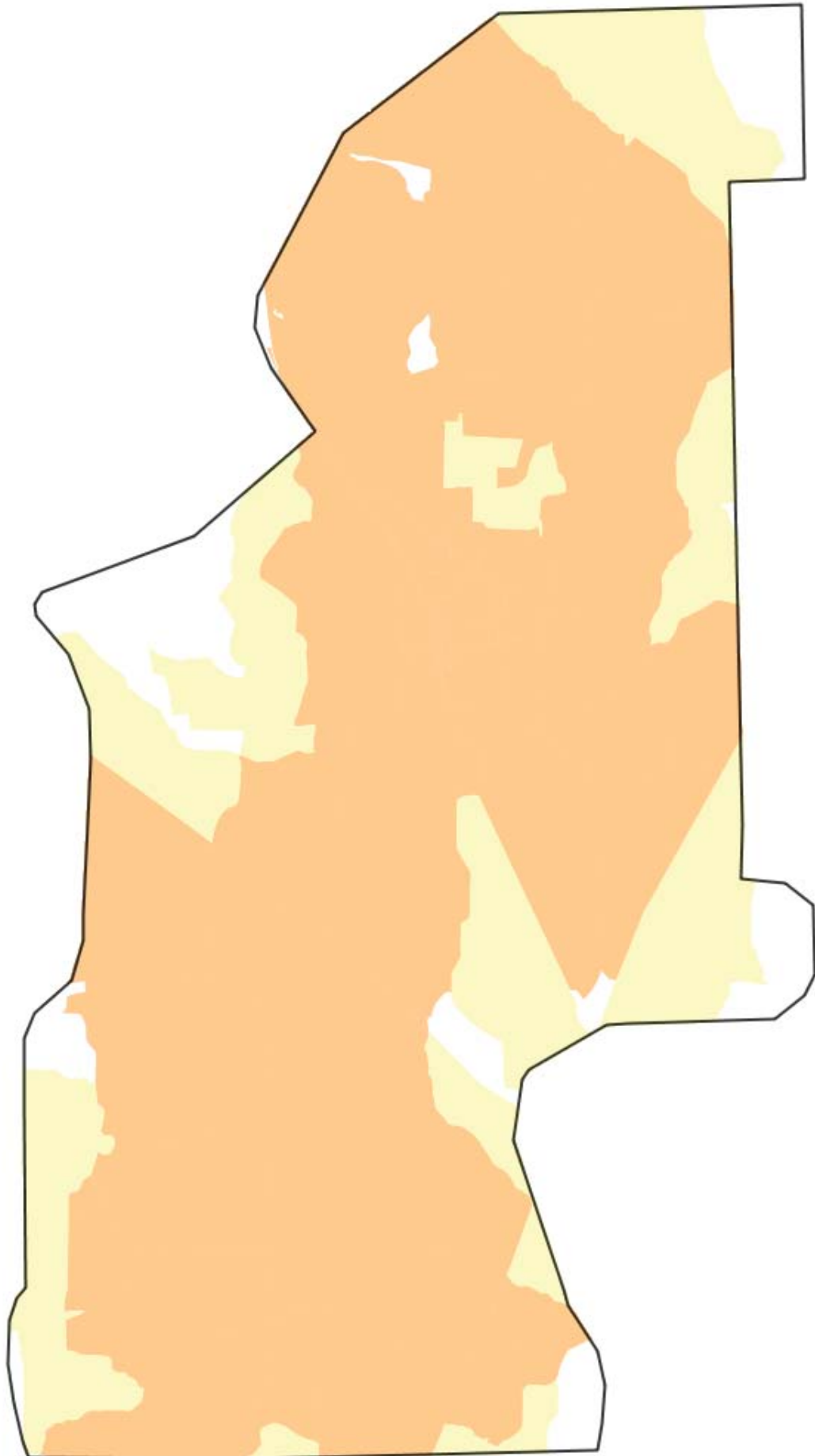
Peoples Telephone Company





Peoples Telephone Company  
(Henry Exchange)

- 10/1 Capable
- 4/1 Capable



**Peoples Telephone Company's demonstration of complying with applicable service quality standards and consumer protection rules:**

In establishing this certification in its *2005 ETC Order*,<sup>1</sup> the FCC found that an ETC must make "a specific commitment to objective measures to protect consumers."<sup>2</sup> The Commission found that for wireless ETCs, compliance with CTIA's Consumer Code for Wireless Service would satisfy this requirement" and that the sufficiency of other commitments would be considered on a case-by-case basis.<sup>3</sup> In this context, the FCC stated, "to the extent a wireline or wireless ETC applicant is subject to consumer protection obligations under state law, compliance with such laws may meet our requirement."<sup>4</sup>

Peoples Telephone Company ("Company") hereby certifies that it is complying with applicable service quality standards and consumer protection rules. The Company is subject to consumer protection obligations under state law. These obligations include, but are not limited to, the following: (1) filing a Local Exchange Tariff pursuant to the Rules of Tennessee Regulatory Authority, Chapter 1220-4-1-.03 and the Tennessee Code Annotated, Title 65, Chapter 5, Part 1, §65-5-102, which disclose rates, terms and conditions of service to customers; (2) adherence to state consumer protection requirements governing telephone providers which require implementation of Basic

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<sup>1</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 05-46 (rel. Mar. 17, 2005) ("*2005 ETC Order*").

<sup>2</sup> *Id.* at para. 28.

<sup>3</sup> *Id.* The FCC noted that under the CTIA Consumer Code, wireless carriers agree to: "(1) disclose rates and terms of service to customers; (2) make available maps showing where service is generally available; (3) provide contract terms to customers and confirm changes in service; (4) allow a trial period for new service; (5) provide specific disclosures in advertising; (6) separately identify carrier charges from taxes on billing statements; (7) provide customers the right to terminate service for changes to contract terms; (8) provide ready access to customer service; (9) promptly respond to consumer inquiries and complaints received from government agencies; and (10) abide by policies for protection of consumer privacy." *Id.* at n. 71.

<sup>4</sup> *Id.* at n. 72.

Utility Obligations in accordance with the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.29, Consumer Safeguards as identified in the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.55, anti-slamming procedures as required in the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.56; (3) truth-in-billing requirements in accordance with the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.58; and (4) CPNI, Red Flag Rules and other applicable federal and state requirements governing the protection of customers' privacy.

**Peoples Telephone Company's Ability to Function in Emergency Situations**

Peoples Telephone Company ("Company") hereby certifies that it is able to function in emergency situations as set forth in Code of Federal Regulations, Title 47, Part 54, Subpart C, §54.202(a)(2)<sup>1</sup> and Rules of the Tennessee Regulatory Authority, Chapter 1220-4-2. The Company's network is designed to remain functional in emergency situations without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations as required by Section 54.202(a)(2). The Company can change call routing translations as needed to reroute traffic around damaged facilities within company exchanges. Changing call routing translations will also allow the Company to manage traffic spikes throughout its network, as emergency situations require. The Company does not have an alternate path of egress and therefor is reliant on a single meetpoint for broadband and voice network availability outside the local exchange carrier's boundary.

If the Company is unable to route E911 traffic through traditional means during an emergency situation it will notify the 911 center and the 911 coordinator that it is in emergency mode and then re-route calls directly to the Houston County 911 center using their administrative lines. In the event that the primary 911 center becomes inoperable the 911 operations will be moved to the Houston Country Emergency Operating Center inside of the courthouse and all 911 traffic will be routed there.

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<sup>1</sup> Section 54.202(a)(2) requires ETCs that are designated by the Commission to "demonstrate its ability to remain functional in emergency situations, including a demonstration that it has a reasonable amount of back-up power to ensure functionality without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations."

In accordance with the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2, 1220-4-2-.23 Emergency Operation, the Company's central offices have adequate provision for emergency power. Specifically, each central office building is supplied with standby generators and battery back-up that enable the central office to keep running until power is restored so long as fuel is available, or until system changes are made to reroute traffic.



**Voice Services Rate Comparability**  
**Peoples Telephone Company's calculation for rate floor certification:**

Peoples Telephone Company, Inc. ("Peoples Telephone") certifies that its pricing of fixed voice services is no more than two standard deviations above the applicable national average urban rate floor for voice services. Peoples Telephone calculates the average local voice rate using the following formula:

Local Rate + State SLC + State USF + Mandatory EAS

The local rate for Peoples Telephone's customers is \$16.00, there is no state SLC or USF and no mandatory EAS. Based on the formula above, Peoples Telephone's residential rates are \$16.00, well below the threshold of \$47.48 set by the Wireline Competition Bureau.

**Progress Report**

Because 2015 is the first year of the Company's network improvement plan, there is no previous year for which to report network improvement targets that have not been fulfilled. The Company will report such information for calendar year 2015 as well as progress towards meeting its targets for that year in its progress report submitted in 2016.

## **Peoples Telephone Company**

### **List of New Community Anchor Institutions**

Peoples Telephone Company had no new community anchor institutions connected in 2014.

**PEOPLES TELEPHONE COMPANY  
AND SUBSIDIARY**  
(A wholly-owned subsidiary of Telephone Electronics Corporation)

**CONSOLIDATED FINANCIAL STATEMENTS  
TOGETHER WITH INDEPENDENT  
AUDITORS' REPORT  
DECEMBER 31, 2014 AND 2013**

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### **CONSOLIDATED FINANCIAL STATEMENTS**

Independent Auditors' Report
Consolidated Balance Sheets
Consolidated Statements of Stockholder's Equity
Consolidated Statements of Income
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements



# HUFFMAN & SOIGNIER

(A PROFESSIONAL ACCOUNTING CORPORATION)  
CERTIFIED PUBLIC ACCOUNTANTS

Francis I. Huffman, CPA  
David Ray Soignier, CPA, MBA, CGMA

John Herman, CPA  
Lynn Andries, CPA, CGMA  
Esther Alleberry, CPA  
Lori Woodard, MBA, CPA, CGMA, CITP  
Fernando Cordova, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Peoples Telephone Company  
Erin, Tennessee

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Peoples Telephone Company (a wholly-owned subsidiary of Telephone Electronics Corporation – the Company), which comprise the balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of income, changes in stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

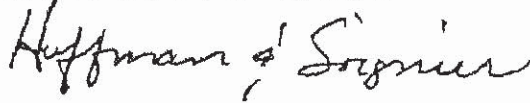
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Huffman & Signier".

(A Professional Accounting Corporation)

April 30, 2015

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

**Assets**

	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)		
Accounts receivable		
Customers, less allowance for doubtful accounts		
of [REDACTED] and [REDACTED] respectively		
Toll settlements, less allowance for doubtful accounts		
of [REDACTED] and [REDACTED] respectively		
Other		
Materials and supplies		
Deferred tax assets (Note 7)		
Prepayments		
<b>NONCURRENT ASSETS</b>		
Investments (Note 4)		
Deferred land lease costs		
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5)</b>		
Regulated communications		
Cable television (CATV)		
Nonregulated communications		
 Accumulated depreciation		
<b>TOTAL ASSETS</b>		

The accompanying notes are an integral part of these financial statements.

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**

**Liabilities and Stockholder's Equity**

	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Trade		
Affiliates (Note 2)		
Other		
Advance billings and customer deposits		
Accrued interest		
Accrued taxes		
Accrued pole rents (Note 6)		
Other accrued liabilities		
 <b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Deferred tax liabilities (Note 7)		
Other noncurrent liabilities		
 <b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
 <b>STOCKHOLDER'S EQUITY (Note 9)</b>		
Common stock, class A, par value [REDACTED] per share;		
1,000 shares authorized, 756 shares		
issued and outstanding		
Common stock, class B, par value [REDACTED] per share;		
750 shares authorized, 520 shares		
issued and outstanding		
Retained earnings		
 <b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>		

The accompanying notes are an integral part of these financial statements.

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

<b>Common Shares Outstanding</b>			<b>Total Stockholder's Equity</b>	<b>Class A Common Stock</b>	<b>Class B Common Stock</b>	<b>Retained Earnings</b>
<b><u>Class A</u></b>	<b><u>Class B</u></b>					
		<b>BALANCES,</b>				
756	520	December 31, 2012				
-	-	Net income				
-	-	Dividends on common stock				
		<b>BALANCES,</b>				
756	520	December 31, 2013				
-	-	Net income				
-	-	Dividends on common stock				
		<b>BALANCES,</b>				
<u>756</u>	<u>520</u>	December 31, 2014				



The accompanying notes are an integral part of these financial statements.



**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>REGULATED COMMUNICATIONS OPERATIONS</u></b>		
<b>REVENUES</b>		
Local service		
Network access and miscellaneous (Note 1)		
 <b>OPERATING EXPENSES</b>		
Plant operations		
Depreciation (Note 5)		
Customer and corporate operations		
Other operating		
 Operating loss		
 <b>NONOPERATING INCOME (EXPENSE)</b>		
Interest expense and related items		
Gain on sale of assets		
Toll settlement adjustments - net (Note 1)		
Other income - net		
 Loss before income taxes		
 <b>INCOME TAX BENEFIT (Note 7)</b>		
 <b>Loss from regulated communications operations</b>		

The accompanying notes are an integral part of these financial statements.

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>NONREGULATED COMMUNICATIONS AND CATV OPERATIONS</u></b>		
REVENUES (Note 1)		
<b>COST OF REVENUES</b>		
Gross profit		
<b>OPERATING EXPENSES</b>		
General operating expenses		
Depreciation (Note 5)		
Operating income		
<b>NONOPERATING EXPENSE</b>		
Interest expense and related items		
Other expense - net		
Income before income taxes		
<b>INCOME TAX EXPENSE (Note 7)</b>		
Income from nonregulated communications and CATV operations		
Net income		

The accompanying notes are an integral part of these financial statements.

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING ACTIVITIES:</b>		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (Note 5)		
Provision for losses on Accounts receivable - Customers		
Provision for losses on Accounts receivable - Toll settlements		
Gain on sale of regulated communications plant		
Provision for inventory obsolescence		
Provision for deferred income taxes (Note 7)		
Changes in assets and liabilities		
Net cash provided by operating activities		
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant, and equipment		
Net removal costs on regulated communications plant retirements		
Proceeds from sale of regulated communications plant		
Net cash used for investing activities		
<b>FINANCING ACTIVITIES:</b>		
Dividends to common stockholder		
Net cash used for financing activities		
 Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		

**The accompanying notes are an integral part of these financial statements.**

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Changes in assets and liabilities:</b>		
Accounts receivable		
Customers		
Toll settlements		
Other		
Materials and supplies		
Prepayments		
Deferred land lease costs		
Accounts payable		
Trade		
Affiliates (Note 2)		
Other		
Advance billings and customer deposits		
Accrued interest		
Accrued taxes		
Accrued pole rents (Note 6)		
Other accrued liabilities		
Other noncurrent liabilities		

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

**Cash paid during the year for:**

Interest

Income taxes (Note 2)

**NONCASH INVESTING AND FINANCING ACTIVITIES:**

Retirements of regulated communications plant at original cost

The accompanying notes are an integral part of these financial statements.

**PEOPLES TELEPHONE COMPANY AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of Peoples Telephone Company (PTC) and its wholly owned subsidiary Peoples CATV, Inc. (PCI) (collectively, the Company). PTC is a wholly-owned subsidiary of Telephone Electronics Corporation (TEC).

Except as otherwise disclosed, all significant intercompany transactions have been eliminated.

**Nature of Operations**

The Company's principal line of business is the provision of a broad range of communications services and cable television (CATV) services to business and residential customers located primarily in central Tennessee. The Company views, manages and evaluates the results of its operations from the various communications services as one company, and therefore, has identified one reporting segment as it relates to providing segment information.

**Regulatory Accounting**

PTC follows the accounting for regulated enterprises prescribed by Accounting Standards Codification (ASC) 980, "*Regulated Operations*", including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the Tennessee Regulatory Authority (TRA). The standard system of accounts for PTC is the FCC's Part 32 Uniform System of Accounts. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment; as such, amounts are recovered through rates authorized by regulatory authorities. Accordingly, ASC 980 requires PTC to depreciate regulated communications plant over the useful lives approved by regulators, which could be different than the estimated useful lives that would otherwise be determined by management. Criteria that would give rise to the discontinuance of accounting in accordance with ASC 980 include increasing competition which may restrict the ability of PTC to establish prices that allow it to recover specific costs and significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. PTC periodically reviews the criteria to determine whether the continued application of ASC 980 is appropriate.



PTC is subject to reviews and audits by regulatory agencies (see Note 12). During 2013, the management of PTC was notified that it had been selected by the National Exchange Carrier Association (NECA) Member Services Division for an in-depth review (the Review) related to the January 2013 settlement data for special access revenues and DSL revenues submitted by PTC to NECA. No adjustments were necessary as a result of the Review.

### **Revenue Recognition**

Revenue is recognized when evidence of an arrangement exists, the earnings process is complete and collection is reasonably assured. The Company's revenues are primarily derived from: local calling services, interstate and intrastate access revenues (including pooled revenues), Connect America Fund (CAF) support, Internet and data services, CATV, long distance services and other miscellaneous services.

The Company markets competitive service bundles which may include multiple deliverables. The Company offers an unlimited statewide calling bundle and an unlimited nationwide calling bundle that consist of voice services, calling features and long distance. Revenues are allocated to the separate units based on their estimated fair values.

Substantially all recurring non-usage sensitive service revenues, including service bundles, are billed in advance and deferred until earned. The Company records revenue billed in advance as advance billings. Non-recurring and usage sensitive revenues are billed in arrears and recognized when earned.

As the result of a new tariff filed with the TRA in July 2014, the Company increased its residential local service rates to \$16 from the existing rate of \$14 effective November 1, 2014. Also in March 2013, the Company filed a tariff with the TRA to increase its residential local service rates to \$14 from the existing rate of \$10 effective April 1, 2013, and to increase its business local service rates to \$24 from the existing rate of \$7.96 effective May 1, 2013.

Network access and miscellaneous revenue is derived from several sources, including CAF support, Universal Service Fund (USF) support, interstate and intrastate access revenues, as well as intrastate long distance revenues, and is detailed as follows:

	<u>2014</u>	<u>2013</u>
CAF support		
USF support		
Interstate/intrastate access		
Intrastate long distance		
Directory services		
Miscellaneous		
Uncollectible		

Revenue for interstate access services is received through tariffed access charges filed by NECA with the FCC on behalf of the NECA member companies. These access charges are billed by the Company to interstate interexchange carriers and reported to NECA to be pooled with like-revenues from all NECA member companies. A portion of the pooled access charge revenues are distributed to the Company based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service. Distributions from these pools can change relative to changes made to expenses, plant investment, or rate of return. Intrastate revenue is derived from tariffed access charges as filed with the TRA. These access charges are billed to the interexchange carriers and payments are retained by the Company. On October 7, 2014, the Company entered into a settlement agreement with AT&T Mobility regarding the exchange of IntraMTA tariff. In connection with this settlement, the Company recognized income of [REDACTED] during 2014, which is reflected within "Toll settlement adjustments – net" on the accompanying consolidated statements of income. The Company also recorded adjustment of prior years intrastate and interstate access costs of [REDACTED] during 2014 and [REDACTED] during 2013, which are reflected within "Toll settlement adjustments – net" on the accompanying consolidated statements of income. Estimated interstate revenues are initially recorded based on cost studies which require final approval by NECA and the FCC. It is believed that the recorded amounts in 2014 approximate the final amounts which will be determined when pool cost studies are finalized; however, these estimates are subject to adjustment in future accounting periods as additional operational information becomes available. The Company recognized additional revenue in the amount of [REDACTED] and [REDACTED] during 2014 and 2013 as a result of the 2013 and 2012 pools being finalized.

The FCC has issued a Report and Order and Further Notice of Proposed Rulemaking ("Reform Order"). The Reform Order contains comprehensive rules reforming all forms of intercarrier compensation and implements a new support mechanism for the deployment of broadband services. Generally, the intercarrier compensation reform outlines a path toward a "bill & keep"

method where there is no compensation for termination of traffic received from another carrier. The transition to this method includes numerous steps depending on the type of traffic exchanged. In July 2014, the Company began reducing its terminating access and reciprocal compensation rates over 7 years to "bill & keep". The Company receives CAF support, which is a support mechanism designed to replace some of the Company's lost access revenue during the transition period outlined in the Reform Order. In April 2014, the Company received a notice from NECA regarding excess CAF support received during the period July 2012 – December 2013. After discussions with NECA, the Company accepted the adjustment and recognized a reduction in 2014 CAF support of [REDACTED]

The High Cost Loop Fund (HCL) is a subcomponent of the USF and is available to rural incumbent carriers to support the high cost of their operations in rural markets. The HCL support is based upon the Company's average cost per loop compared to the national average cost per loop. The Company received HCL support of [REDACTED] during 2013 (see Note 11).

The Company recognizes directory services revenue over the subscription period of the corresponding directory. Directory services are normally billed under contract.

Nonregulated communications and CATV revenues are derived primarily from Internet and data services, CATV, long distance services, inside wire maintenance (ISW Maintenance) and Voice over Internet Protocol communications services (VoIP), and are detailed as follows:

	<u>2014</u>	<u>2013</u>
Internet and data services	[REDACTED]	
CATV		
Interstate/international long distance		
ISW Maintenance		
VoIP		
Miscellaneous		
Uncollectible		

Receivables for network access revenues are reflected (net of payables) as "Accounts receivable – Toll settlements" for 2014 and 2013 on the accompanying consolidated balance sheets.



**Property, Plant and Depreciation**

Regulated communications plant is stated substantially at original cost of construction and includes indirect costs consisting of payroll taxes, pensions and other fringe benefits, and supervision salaries. Net composite interest charges on borrowed and equity funds used to finance construction are capitalized in the same manner as construction labor and material costs. Interest is capitalized to the extent allowed by regulatory agencies. No interest was capitalized in 2014 or 2013.

Generally, for regulated communications plant, normal asset retirements are charged against accumulated depreciation along with the cost of removal, less salvage, with no gain or loss recognized. The unrecovered costs of regulated communications plant removed substantially in advance of the expected service life of the plant (extraordinary retirements) are deferred and amortized over a period of years specified by the appropriate regulatory commission. There were no extraordinary retirement balances as of December 31, 2014 and 2013.

Depreciation of regulated communications plant is provided on the straight-line method, using class and overall composite rates subject to approval by the TRA.

When nonregulated communications or CATV plant is sold or retired, the original cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation on nonregulated communications and CATV plant is determined using the straight-line method for financial reporting purposes.

Expenditures for improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs to all property, plant and equipment, as well as replacement of minor items, are charged to maintenance expense as incurred.

**Materials and Supplies**

The Company maintains an inventory of telephones, cable, modems and equipment repair parts as well as maintaining an inventory for resale of telephones and computer accessories. Materials and supplies are stated at the lower of cost or market value. Cost is determined using the moving average method of valuation. The Company reviews inventory on an annual basis for obsolescence and records charges based upon various factors, including the age of the inventory and technological advances. The Company has provided a reserve for obsolete inventory of [REDACTED] and [REDACTED] at December 31, 2014 and 2013, respectively.

**Income Taxes**

The Company is included in the consolidated federal income tax return of TEC. For financial reporting purposes, income taxes are generally calculated and settled as though the Company had prepared a separate consolidated tax return except that the statutory income tax rate for TEC is applied.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and their respective tax bases and operating loss and tax credit carryforwards.

To the extent current year income tax accruals are paid or offset by other transactions with TEC, they are considered as cash paid for income taxes.

Interest and penalties related to income tax matters are recognized in Nonoperating Income (Expense). During 2014 and 2013, the Company had no significant amounts recorded for interest and penalties.

The Company is subject to income tax examinations by the IRS and the Tennessee Department of Revenue; however, there are currently no examinations in progress for any tax periods. Management believes the Company is no longer subject to income tax examinations for years prior to 2011.

**Recently Adopted Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, which is designed to reduce diversity in practice of financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. This new guidance became effective for the Company on January 1, 2014. The adoption of this update did not have a material impact on the Company's financial position or results of operations.

**Recently Issued Accounting Pronouncements**

During 2014, the FASB issued ASU 2014-01 through ASU 2014-18. Except for ASU 2014-09, which is discussed below, these ASUs primarily provide technical corrections to existing guidance, relate to specialized industries or relate to accounting issues that are not applicable to the Company. Accordingly, these ASUs will not have a material impact on the Company's financial position or results of operations.



In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is designed to clarify the principles used to recognize revenue for entities. The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The guidance becomes effective for the Company on December 31, 2019 and allows for two methods of adoption: (1) "full retrospective" adoption, meaning the standard is applied to all periods presented, or (2) "modified retrospective" adoption, meaning the cumulative effect of applying ASU 2014-09 is recognized as an adjustment to the fiscal year 2019 opening retained earnings balance. The Company is evaluating the potential impact of this pronouncement.

### **Cash, Cash Equivalents and Cash Investments**

The Company considers highly liquid investments (including the Company's interest in a consolidated cash management account maintained by a subsidiary of TEC (see Note 2)) with an original maturity of three months or less to be cash equivalents. Certificates of deposit with an original maturity greater than three months, but less than or equal to one year are considered to be cash investments.

### **Disclosures About Concentrations**

The Company is subject to credit risk primarily through cash and cash equivalent balances and trade receivables.

The Company's cash and cash equivalents are primarily invested in a master cash management pool with other TEC affiliates (see Note 2). The overall pooled cash balances are currently invested in mutual funds, consisting primarily of U.S. government agency and treasury securities, as well as overnight repurchase agreements. The risk of loss on such investments is remote.

The Company believes that the concentration of credit risk with respect to trade receivables is principally related to receivables due from other interexchange carriers for network access revenues, which are reflected within "Accounts receivable – Toll settlements", and the amounts due from underlying customers for local, internet and data services which are reflected within "Accounts receivable – Customers" on the accompanying consolidated balance sheets. Overall, the Company believes that such credit risk is minimized because charges for local, internet and data, and CATV services are typically billed in advance of the actual services being rendered, and charges for toll services provided by long distance carriers other than the Company and not collected from the Company's underlying customers are recoverable from the associated long distance carriers.

**Accounts Receivable and Allowance for Doubtful Accounts**

The Company extends credit to its business and residential customers generally on an unsecured basis. Service interruption is the primary vehicle for controlling losses. Trade and toll settlement receivables are accounted for at cost less the reserve for uncollectible accounts. The allowance for doubtful accounts on trade receivables is computed by management and is the Company's best estimate for the amount of probable losses on the Company's existing accounts receivable. The allowance for doubtful accounts is calculated excluding the long distance portion of the receivable, for carriers other than the Company, due to the fact that this portion is recoverable in full from the associated long distance carrier. The allowance for doubtful accounts for toll settlements is calculated using the specific identification method whereby management assesses a carrier's ability to meet its current financial obligations to the Company. Management's assessment includes the overall length of time the receivable has been past due, historical collection experience, and other factors.

Customers are typically billed on the 1<sup>st</sup> of every month and the accounts are considered delinquent if not paid in full by the 15<sup>th</sup> of the month. Late fees are billed at the tariffed rate filed with the TRA and are recorded as income when billed. Customer accounts are typically disconnected if payment is not received by the 25<sup>th</sup> of the respective month. Normally, uncollectible trade receivables are written off against the allowance for doubtful accounts sixty days after the date of disconnection. Subsequent recoveries of customer receivables are recognized as income in the period such amounts are actually received.

**Advertising**

Costs incurred for producing and communicating advertising are expensed as incurred.

**Taxes Collected from Customers and Remitted to Governmental Authorities**

The Company records taxes billed to its customers and remitted to governmental authorities on a net basis within a liability account.

**Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The estimates are

reviewed periodically and, as adjustments become necessary, they are reported in the consolidated earnings of the Company in the period in which they become known.

### **Deferred Land Lease Costs**

Lump sum payments to acquire long-term land leases are capitalized and amortized on the straight-line method over the terms of the underlying leases. The related expense is reflected within "Plant operations" on the accompanying consolidated statements of income.

### **Investments**

Investments in nonconsolidated companies in which the Company has a 20% to 50% interest or otherwise has the ability to exercise significant influence over the operating and financial policies are accounted for using the equity method. Investments in which there is no significant influence (normally less than a 20% ownership) are accounted for under the cost method of accounting.

To determine if an impairment of an investment exists, the Company monitors and evaluates the financial performance of the business in which it invests and compares the carrying value of the investee to quoted market prices (if available), or the fair values of similar investments, which in certain instances, is based on traditional valuation models utilizing multiples of cash flows. When circumstances indicate that a decline in the fair value of the investment has occurred and the decline is other than temporary, the Company records the decline in value as a realized impairment loss and a reduction in the cost of the investment.

### **Subsequent Events**


The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through April 30, 2015, which is the date the consolidated financial statements were available to be issued.

### **Reclassifications**


Certain reclassifications have been made to conform 2013 amounts to 2014 classifications, none of which had a material effect on these consolidated financial statements.

## 2. AFFILIATED TRANSACTIONS

In the normal course of operations, the Company receives and provides certain services or engages in transactions with TEC and/or certain subsidiaries of TEC. The significant services and transactions with affiliated companies not discussed elsewhere are summarized as follows:

	<u>2014</u>	<u>2013</u>
Amounts incurred for assistance with billing and related services provided by subsidiaries of TEC		
Amounts incurred for executive, managerial, technical, accounting, insurance, marketing, legal, service mark licensing, regulatory matters, revenue assurance, equipment purchases, and other miscellaneous services provided by TEC		
Amounts incurred for network transmission, network access, equipment and network maintenance, Internet bandwidth, equipment purchases and other miscellaneous services provided by subsidiaries of TEC		
Services provided to a subsidiary of TEC, principally for network transmission and network access		
Sale of regulated communications property, plant and equipment to other telephone subsidiaries of TEC		
Purchase of regulated communications property, plant and equipment from other telephone subsidiaries of TEC		

The net balances due (to) from affiliated companies are reflected in the consolidated financial statements as follows:

	<u>2014</u>	<u>2013</u>
Accounts payable - Affiliates		
Amounts included in:		
Accounts receivable - Toll settlements		
Accounts payable - Trade		



The following is a detail of the composition of the net balance due (to) from affiliates:

	<u>2014</u>	<u>2013</u>
TEC		
TEC Services, Inc.		
LecNet, Inc.		
TEC Services of Louisiana, Inc.		
West Tennessee Telephone Company, Inc.		
TEC of Jackson, Inc.		
Crockett Telephone Company, Inc.		
ComNet, Inc.		

In addition to the above transactions, the Company made federal tax payments to TEC of [REDACTED] and [REDACTED] during 2014 and 2013, respectively. Further, amounts due to TEC for federal income taxes, which are included in the TEC amounts above, amounted to [REDACTED] and [REDACTED] at December 31, 2014 and 2013, respectively.

The Company participates in a master cash management pool with other TEC affiliates administered by Regions Bank. The Company's main operating and payroll accounts draw from and are funded by an investment account maintained by another subsidiary of TEC. The Company receives an allocation of earnings, if any, and fees on the investment account on a monthly basis. The Company's share of the investment account is reflected in "Cash and cash equivalents" on the accompanying consolidated balance sheets and amounted to [REDACTED] for 2014, of which [REDACTED] has been committed to fund outstanding checks. The Company's share of the investment account for 2013 was [REDACTED]

A loan agreement of TEC with the Rural Telephone Finance Cooperative (RTFC) contains certain restrictions which pertain to the Company, including restrictions on incurring additional indebtedness and transactions involving the Company's capital stock.

### 3. RELATED PARTY TRANSACTIONS

During 2014 and 2013, the Company engaged in transactions with entities in which there is an ownership or involvement by an officer and director. The significant transactions are summarized as follows:

	<u>2014</u>	<u>2013</u>
Amounts incurred for engineering and other related services provided by a company owned or controlled by an officer and director of the Company		



Amounts payable to related parties at December 31, 2014 and 2013 were \$806 and \$1,528, respectively. These amounts are reflected in "Accounts payable - Trade" on the accompanying consolidated balance sheets.

#### 4. INVESTMENTS

Investments consist of:

	<u>2014</u>	<u>2013</u>
RTFC		

The Company's investment in RTFC is carried at historical cost due to no readily determinable fair market values for such instruments being available. The RTFC investment is comprised of patronage certificates that represent ownership in RTFC. This investment is being redeemed on an ongoing basis.

#### 5. PROPERTY, PLANT AND EQUIPMENT

The major classes of property, plant and equipment and their respective depreciation rates are as follows:

	<u>Annual Rate Range</u>	<u>Asset Balance 2014</u>	<u>2013</u>
<b>Regulated communications</b>			
Land	-		
Buildings	3%		
Vehicles and other work equipment	13%		
Furniture and office equipment	8% - 25%		
Central office equipment	8%		
Circuit equipment	13%		
Poles	7%		
Cable, lines and wire	7%		
Other	13%		
Total regulated communications plant in service			
Regulated communications plant under construction			
Total regulated communications plant			
<b>CATV</b>	4% - 50%		
<b>Nonregulated communications</b>	20% - 33%		

Depreciation expense for property, plant and equipment amounted to [REDACTED] and [REDACTED] in 2014 and 2013, respectively. The composite depreciation rate for regulated communications property, plant and equipment was 5.10% for 2014 and 5.11% for 2013.

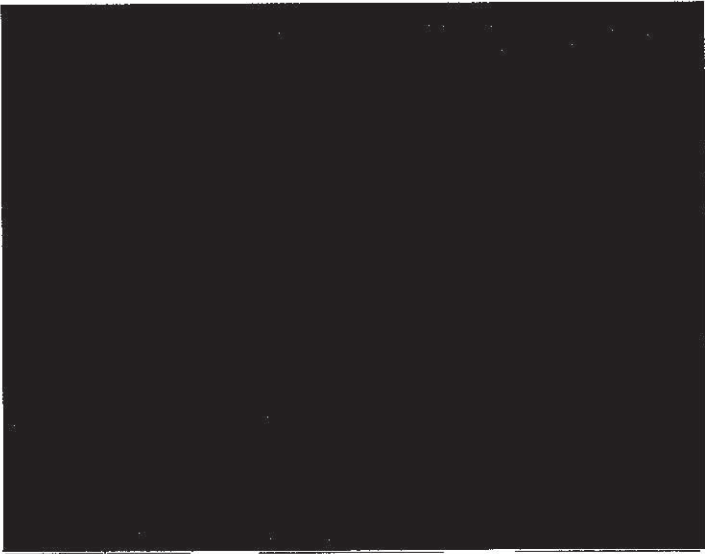
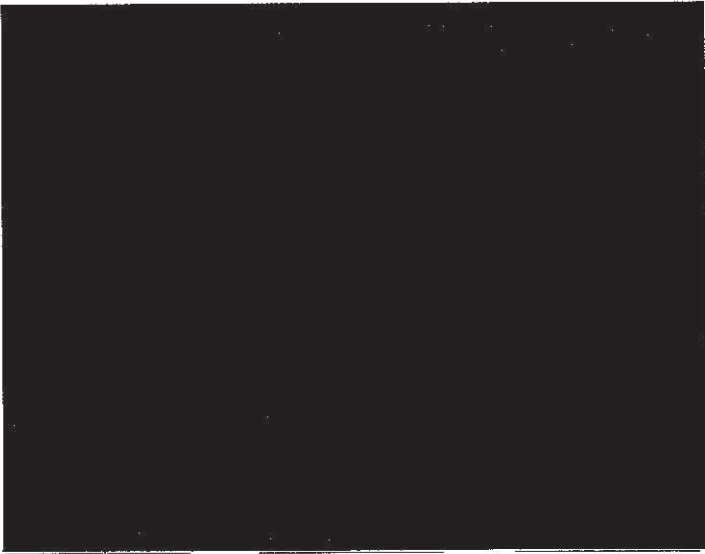
## 6. LEASES

The Company incurs pole rent expense under the terms of cancellable joint use pole rental agreements and pole attachment license agreements. Pole rent expense incurred under these agreements, which is reflected in "Plant operations" on the accompanying consolidated statements of income, amounted to [REDACTED] and [REDACTED] for 2014 and 2013, respectively. Under the terms of the joint use pole rental agreements the Company recorded pole rental revenue in the amount of [REDACTED] during 2014 and [REDACTED] during 2013, which is included in "Network access and miscellaneous" on the accompanying consolidated statements of income.

The Company also leases land and other items under cancellable operating leases. Rent expense under these agreements amounted to [REDACTED] and [REDACTED] for 2014 and 2013, respectively.

## 7. INCOME TAXES

Income taxes were charged to operations as follows:

		<u>Regulated Communications Operations</u>	<u>Nonregulated Communications &amp; CATV Operations</u>	<u>Total</u>
	2014			
Current				
Federal				
State				
Deferred				
Federal				
State				
	2013			
Current				
Federal				
State				
Deferred				
Federal				
State				

The following is a summary of the items which cause the effective tax rate based on pretax income to differ from the statutory federal income tax rate:

	<u>2014</u>	<u>2013</u>
	<u>Amount</u>	<u>Amount</u>
	<u>% of</u>	<u>% of</u>
	<u>Pretax</u>	<u>Pretax</u>
	<u>Income</u>	<u>Income</u>
Computed "expected" federal income tax expense		
State income tax expense, net of federal income tax effect		
Other - net		
Actual income tax expense		

The tax effects of temporary differences that gave rise to the deferred tax assets and deferred tax liabilities, at December 31, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
State net operating loss carryforwards		
Inventory valuation reserve		
Accounts receivable allowance		
Other - net		
Gross deferred tax assets		
Valuation allowance		
Total deferred tax assets		
Deferred state income tax (for calculation of deferred federal income taxes)		
Property, plant and equipment, primarily due to depreciation		
Total deferred tax liabilities		
Net deferred tax liabilities		

Deferred taxes are included in the consolidated financial statements as follows:

	<u>2014</u>	<u>2013</u>
Deferred tax assets - current		
Deferred tax liabilities - noncurrent		

At December 31, 2014, PCI had state net operating loss carryforwards of [REDACTED]. These operating loss carryforwards will expire between 2018 and 2029.

The valuation allowance for deferred tax assets increased [REDACTED] and [REDACTED] during 2014 and 2013, respectively. The increase in the valuation allowance was the result of management's

assessment that it is more likely than not that the Company will not be able to realize the benefits of all or a portion of PCI's state net operating loss carryforwards in future periods.

## **8. EMPLOYEE BENEFIT PLANS**

### **Employee Stock Ownership Plan (ESOP)**

TEC sponsors an ESOP that covers substantially all employees with one year or more of service with a participating company. Participating companies include TEC and its subsidiaries (including the Company). This plan is funded by participating company contributions determined annually by TEC's Board of Directors. The Company contributed [REDACTED] during 2014 and [REDACTED] during 2013 to the ESOP, which is reflected as compensation expense.

### **Employee 401(k) Plan**

The Company is included in the Telephone Electronics Corporation and Associated Companies 401(k) Plan (the 401(k) Plan). Participating employees may contribute a portion of their compensation to the 401(k) Plan, and the Company, at its discretion, makes matching contributions based on the employee's contribution. Participation in the 401(k) Plan is open to employees who have attained the age of 21 and completed one year of service (as defined under the 401(k) Plan). Currently, the Company makes safe harbor matching contributions of 100% of the first 3% of employee compensation contributed to the 401(k) Plan and 50% of the next 2% of employee compensation contributed to the 401(k) Plan. Total matching contributions recognized by the Company were [REDACTED] and [REDACTED] for 2014 and 2013, respectively.

## **9. COMMON STOCK**

Class A common stock has voting rights. Class B common stock is non-voting and is subject to redemption on notice at par value. Dividends must be paid simultaneously on both classes of common stock in like amounts per share.

## **10. COMMITMENTS AND CONTINGENCIES**

Construction expenditures and other investments in property, plant and equipment are currently estimated to be [REDACTED] during 2015; however, this estimate may be revised for changes in funding availability.



## 11. CONCENTRATIONS, RISKS AND UNCERTAINTIES

The Company's business is conducted primarily in central Tennessee and, accordingly, is dependent upon the general economic conditions of this region. Although the Company's performance is affected by the general conditions of the economy, not all of its services are equally affected. There can be no assurance that future economic conditions in this region will not impact demand for services, which may impact the Company's business, operating revenues and cash flows.

The Company also faces certain inherent risks that its service area can experience significant weather events which have the potential to physically damage its overall telecommunications and CATV infrastructure. Such disruptions may cause interruptions in service or reduced capacity for customers on a short-term basis and cause the Company to incur certain non-recurring expenses which may or may not be recoverable under the provisions of insurance policies.

The Company faces potential competition from wireless carriers, competitive local exchange carriers, satellite television providers and other providers of telecommunications, CATV, and information services. Certain competitors benefit from financial, personnel, marketing and other resources that are significantly greater than the Company's available resources. These competitors may provide services competitive with products and services the Company provides or intends to provide. However, as a "rural telephone company", PTC is currently exempt from the obligation to lease network elements in an unbundled manner to competitive local exchange carriers and to comply with certain other requirements applicable to larger incumbent local exchange carriers. This relief may be lost if certain actions are taken by competitors or regulatory bodies.

Approximately 34% and 36% of the Company's total consolidated revenues for the years ended December 31, 2014 and 2013 were derived from network access charges, USF support and CAF support. The interstate network access rates that the Company can charge are regulated by the FCC, and the intrastate network access rates are regulated by the TRA. Those rates may change from time to time. The Company received HCL support which supported the high cost of its operations in rural markets. The HCL support was based upon the Company's average cost per loop compared to the national average cost per loop.

In early 2010, the FCC released its new National Broadband Plan (the Broadband Plan). The Broadband Plan is the FCC's framework to develop a comprehensive plan over the next decade for broadband deployment, intercarrier compensation reform and regulatory reform initiatives, such as reformation of the USF HCL. Subsequently, the FCC issued the Reform Order which addressed both intercarrier compensation as well as USF support issues. The Reform Order was



accompanied by a Further Notice of Proposed Rulemaking seeking comment on a range of follow up proposals. The Reform Order is also the subject of numerous Petitions for Reconsideration, which ask the FCC to reconsider portions of its decision, and is the subject of judicial appeals. Future judicial challenges to the Reform Order are also possible, which could alter or delay the FCC's proposed changes. The Company cannot predict the outcome of any future rulemaking, reconsideration and legal challenges and as a consequence, the impacts these may have on the Company; however, the Reform Order may have a negative impact on the Company's revenues.

The Reform Order establishes a \$2 billion fund that is intended to maintain existing levels of support in the aggregate while at the same time transitioning support mechanisms so that, over time, rate of return carriers receive support for the deployment of wireline broadband facilities principally through the CAF rather than through the intercarrier compensation regime. To effectuate the first phase of this effort, the Reform Order established benchmarks that limit certain reimbursable capital and operating expenses for determining HCL support; reduces HCL support on a dollar-for-dollar basis where a carrier's local rates are set below a specified urban local rate floor; phases out Safety Net Additive support; eliminates local switching support; eliminates support for service areas that overlap with the service areas of others; and imposes a \$250 absolute cap on per line support. Although the Reform Order is intended to permit rate of return carriers to recover any lost support through the explicit support mechanism in the CAF, it remains unclear whether the CAF will provide the Company with the same level of support over time that the Company currently receives.

## **12. SUBSEQUENT EVENTS**

By letter dated January 16, 2015, management of PTC was notified that it had been selected by the Universal Service Administrative Company (USAC) for an audit of the accuracy of the data reported on the Lifeline Worksheet (Form 497) for April 2014, the Annual Lifeline Eligible Telecommunications Carrier Certification (Form 555) filed in January 2014 and the Carrier Annual Reporting (Form 481) filed in October 2013. As the audit is still in process as of the date of this audit report, it is not yet known whether any adjustments to the Company's consolidated financial statements will be required.